



MINUTES

Committee Members Present: Mark Baldwin, Rani Borkar (*ex officio*), Julia Brim-Edwards, Darry Callahan, Mike Green (*ex officio*), Laura Naumes, Kirk Schueler (*chair*), Mike Thorne (*vice chair*)

Other Trustees Present: Mike Bailey, Patty Bedient, Michele Longo Eder, and Ed Ray

University Staff Present: Ron Adams, Jennifer Almquist, Anita Azarenko, Sherm Bloomer, Lois Brooks, Debbie Colbert, Jon Dolan, Becca Gose, Jan Lewis, Patti Snopkowski, and Marcia Stuart

1. Call to Order/Roll/Declaration of a Quorum

Committee Chair Kirk Schueler called the meeting to order at 2:31 p.m., asked the board secretary to call the roll, and noted a quorum.

2. Interim Vice President for Finance and Administration Report

Interim Vice President for Finance and Administration and Chief Financial Officer Mike Green reported that the university is preparing to sell and issue bonds for the five projects included in the bond resolution approved by the Board in June. He added that the university is seeking an updated bond rating and is expecting the rating to stay at Aa3.

Next, Green provided an update on consulting firm Baker Tilly's review of the university's delivery of human resources services. He said the university had addressed Baker Tilly's recommendations to realign organizational structures and streamline processes through changes implemented in February, noting that there have been positive results over the past six months, including enhanced clarity and improved communications. As an example, Green updated the committee on the student recruitment and hiring process improvement effort, which has been aimed at streamlining recruitment of student employees. Green added that a contract was recently finalized with Baker Tilly to engage them in an evaluation of OSU's current business operations organization structure with a focus on improving service levels without adding administrative costs. He anticipated that the review would be completed by the end of fall term. Green noted that implementation of an online eProcurement System was scheduled for the fall and was anticipated to make the procurement process easier and more effective.

Green also reported that Suzy Tannenbaum joined OSU as the new director of public safety, effective July 20. Tannenbaum has an extensive background in law enforcement, community policing, and higher-education public safety leadership. Green said

Tannenbaum's positive impact on the public safety of students, staff, and the public was already noticeable.

Following Green's report, Trustee Mike Bailey asked about the new Learfield contract cited in the FY2017 Q4 OSU Operating Management Report included as part of the consent agenda. Green clarified that Learfield Sports manages the multimedia rights for the athletic department and provides exclusive sports programming to radio stations nationwide.

3. Consent Agenda

- a. **Minutes of the June 1, 2017 Finance & Administration Committee Meeting**
- b. **FY2017 Q4 OSU Operating Management Report**
- c. **FY2017 Q4 Investment Reports**

A motion was made and seconded to approve the items on the consent agenda. The motion carried.

4. Action Item

- a. **Board Assessment Results and 2018 Committee Work Plan**

Chair Schueler asked Board Secretary Debbie Colbert to present this item. Colbert began by providing an overview of the five attachments included in the docket materials. Colbert reviewed the annotated work plan for 2017 showing the work completed to date and planned for the remainder of the calendar year. She commented on the remarkable work by the committee and, as an example, highlighted the achievement of their goal to engage in conversations about tuition rates earlier in the year.

Next, Colbert summarized the results of the 2017 Board Assessment Survey. Overall, trustees indicated they believe that strong relationships and a positive culture exist at all levels of their interactions and that committee leadership and support is highly effective. Colbert noted that responses are now available across three years and that an increase in the average of the responses to the assessment statements suggests improvements have been made across many criteria. She added that one area identified for improvement across all of the committees was providing sufficient time for thoughtful deliberation and engagement. Colbert also said that, in open-ended comments, committee members expressed interest in focusing on the long-term financial sustainability of the university, discussing updates to the Ten-Year Business Forecast, and spending time actively engaged in discussion.

Based on this feedback and a review of the 2017 Work Plan, and guided by the Finance & Administration Committee charter, a draft work plan for calendar year 2018 was developed. Colbert provided an overview of the plan, included as Attachment 4, noting that it moves forward core charter responsibilities. She added that discussions with Chair Schueler and Vice Chair Thorne prompted the inclusion of a new focus on strategic financial opportunities. Colbert also stated that the work plan is not fixed; rather, it is intended to serve as a guide to the committee's work, following best practices for the Board assessment and work plan development. Noting that some annual obligations are linked to the charter, Schueler asked trustees what additional topics they would like to see the committee address in 2018. Referencing comments in response to open-ended questions in the survey, both Trustee Darry Callahan and President Ed Ray expressed an interest in reviewing the fundraising goals of the OSU Foundation. Callahan emphasized the Foundation's role is fundraising to benefit the university, and Ray added

the importance of the Board's review of the university's return on its investment in the Foundation. Colbert suggested that if the committee decided to include a review of the financial performance of the Foundation, it could be scheduled for the October meeting when the Foundation provides their summary to the full Board. Callahan offered his support for this approach, and Schueler added the importance of focusing on both the Foundation's efforts to raise funds to benefit the university and their management of the university's investments. Trustee Mark Baldwin also expressed an interest in seeing how funds are prioritized and directed to benefit students. General Counsel Becca Gose noted the importance of approaching any review in such a way as to maintain clear distinctions between the university and the OSU Foundation as two separate legal entities.

Following discussion, a motion was made and seconded to adopt the Calendar Year 2018 Finance & Audit Committee work plan with an amendment to include a report by the OSU Foundation in October. The motion carried.

5. Education/Discussion Items

a. Capital Project Status Report

Schueler asked Green to present the status report on major capital projects that have been approved by the Board from FY2015-FY2017. Green said that this was a new report developed to support accountability and keep the Board informed of the progress of capital projects. He then introduced Anita Azarenko, associate vice president for capital planning and facilities services, to provide an update on major capital projects, and Lois Brooks, vice provost for information services, and Job Dolan, assistant vice provost for information services, to provide an update on the IT systems infrastructure project.

First, Azarenko said the objectives of the new capital project status report included summarizing the status of projects substantially complete and closing out and providing an update on major capital projects that are currently in progress. She also requested feedback on the report itself so that it could be refined to meet the needs of the committee. Then, Azarenko summarized the major capital projects that are substantially complete, as noted in TAB E, Table 1, providing an update on expenditures through FY2017 as compared to the Board-approved budget. Callahan asked about the receipt of gift funds, and Azarenko confirmed that expenditures reflected gifts not yet received. With this in mind, Callahan suggested that future reports indicate where interim financing was being used in anticipation of receipt of philanthropic gifts. In response to a question by Bailey about pledge contributions, Green noted that pledge agreements typically set a date of commitment at no more than five years, but that there have been projects that set the date at ten years. Other trustees emphasized the importance of disaggregating the report on available funding by payments versus pledges received and including the borrowing cost of financing capital projects. Green suggested it may be helpful to include at a future committee meeting an overview on capital project financing.

Next, Azarenko continued her report of major capital projects that are substantially complete. Following her review of Table 1, Schueler suggested that, in addition to a column noting expenditures through the current fiscal year, it would be helpful to see an estimate of the projected total cost of the project. Azarenko said that all of the projects listed were anticipated to be completed within the Board-approved budget and no additional expenditures were anticipated; however, she noted that a column for projected

total cost by closeout could be added to future reports. Callahan added his support for the additional column given the recent trend in escalating construction costs that may exceed original estimates. Trustee Mark Baldwin asked about the practice of keeping projects open for an additional year and whether that involved withholding payments due to be paid to a contractor. Azarenko noted that there is a holdback of the last installment of a contractor's payment until a *Notice of Final Completion* is issued from procurement. This is only issued after all contractual obligations are met to OSU's satisfaction.

Azarenko then moved to Table 2 for a discussion of the seven major capital projects that are currently in progress, each of which is in a different stage of development. Azarenko reported that the Oregon Forest Science Complex had originally been scheduled to be completed in fall 2017; however, the current schedule has completion scheduled for winter 2019. She stated that the schedule was impacted by the release of an architect and then the release of a general contractor as well as an escalation in construction costs. Given the cost escalation, the university decided that it was important to hire an external consultant to perform due diligence on the project management process and to provide recommendations to ensure that the project will be completed successfully in a timely fashion. Azarenko added that the consultant concluded that the current project management team is well-qualified and competent and noted that the university has shifted the risk of future cost escalations to the contractor through a guaranteed maximum price contract. She said the consultant also indicated that market pressures are continuing nationwide, creating the potential risk for additional escalation. Additionally, the consultant noted that there was little opportunity to further value engineer the New Peavy Hall to reduce project costs. As a result, there is a \$7.2M funding shortfall for the entire complex, and the College of Forestry is working to close the remaining gap with other resources. In response to a question by Trustee Mike Thorne, Azarenko confirmed that efforts to reduce overall project costs include rescoping the Advanced Wood Products Lab and Field Instrument Room designs. Azarenko said that once the final estimates of the total cost are complete, an updated budget and funding plan will be presented to the Committee for review. She said that a new process has been developed within the Office of Capital Planning to incorporate financing costs into the project budget so that units factor that expense into the total project costs. Trustee Patty Bedient asked about lessons learned through the process of releasing the architect and general contractor, and Azarenko replied that standard operating procedures have been updated to reflect improvements identified through the experience.

Following brief updates on Magruder Hall and HP Building 11, Brooks and Dolan provided an overview of the Information Technology Infrastructure project. Brooks said the original goals of the project were to provide resiliency and to improve basic services to support education and research. She reported that the Outside Cable Plant adds a second redundant entry point to the connection between the Corvallis campus and the rest of the world. Brooks also shared that market forces have been working to the benefit of this project making it possible to connect 50 buildings to the redundant facility rather than the originally estimated 20 buildings. Next, Brooks provided an update on the on-building cable upgrades, noting that fiber optic cable has been upgraded in approximately 50 buildings. She said cable continues to be upgraded to the new campus standard to enable higher network speeds. Lastly, Brooks spoke about the long distance fiber project. She said that for the past 20 years, OSU, Oregon Health & Science University, Portland State, and the University of Oregon have co-owned a piece of network that runs between Eugene and Portland. Oregon State's original plan had been

to extend the network to the university's sites in Newport and Bend. However, as a result of favorable market forces and the addition of the Office of the Chief Information Office of the state of Oregon to the partnership, it has become possible, within the same funding parameters approved by the Board, to ring the state with networking extending into Washington, Idaho, and California. This creates three points of redundancy and makes it possible to link numerous experiment stations and extension centers. Brooks said the project will likely be complete within three years.

Next, Azarenko completed her review of capital projects in progress in Corvallis. She said the Complex for Resilient Infrastructure and Safety project anticipates beginning construction in fall 2018. Azarenko also shared that the Cascade Hall Renewal Phase II project was not proceeding due to changes in the nature of the educational demands through INTO OSU. She concluded by noting that the Whyte Track and Field project was reduced from \$6M to \$2M in order to address other emergent priorities.

Azarenko then provided an update on the progress of the Marine Studies Initiative Building in Newport. She shared that the latest cost estimate is \$57.9M, which exceeds the \$50M budget approved by the Board. She said the total available funding is \$51M, and the project is now moving into design development in order to get more accurate cost, adding that the team is also looking at strategies for reducing costs and raising additional funds. Azarenko then shared some of the reasons the project is anticipated to exceed the approved budget, including delaying the schedule in order to meet the criteria established to construct a building to sustain a 9.0 earthquake and associated tsunami and to provide a vertical evacuation facility. She noted that project completion is estimated for September 2019. Green added that the design of a vertical evacuation route offers another important safety space for building occupants and others in the case of a major seismic event.

In the discussion that followed, Eder asked whether the \$57.9M estimate included the reduction in square footage, and Green confirmed that it did. Baldwin asked about the likelihood of further cost increases. Green said that while some risk of construction increases can be assumed in any project, the university is engaging in activities to help reduce that risk. Schueler thanked the presenters, noting that the new capital project status report offered additional transparency.

b. FY2018 Budget Update

Schueler asked Green to introduce this item. Green said the budget update addressed previous uncertainties about the level of state support for the Public University Support Fund. Prior to adjourning, the Oregon Legislature approved a 10.4% increase over the 2015-17 Legislatively Approved Budget, which impacted the university's operating budgets for Fiscal Year 2018. He then introduced Director of Budget and Fiscal Planning Sherm Bloomer to summarize the changes.

Bloomer noted that the increase in state funding meant that Corvallis did not need to execute \$2.2M of the budget reductions planned for the end of July. In addition to providing a budget reserve, he said the allocation provides an opportunity for the university to consider what possible strategic reinvestments might have the greatest impact. Bloomer added the increased appropriation by the state came with the expectation that no university's undergraduate tuition growth for the 2018-19 academic year will exceed 5% over the 2017-18 rate. Next, Bloomer said staff had updated

projections of fall enrollment. He noted that enrollment is projected to be up about 0.6% in Corvallis, up about 10% in Ecampus, and down about 6% at Cascades. Bloomer also said that the operating support for Oregon's public university reflected the cooperative work of the seven public universities.

Bloomer then provided an update on the capital budget, noting that the legislature authorized support for the high-priority projects on OSU's Corvallis campus at the requested levels. However, he reported that the approved capital budget for OSU-Cascades included only \$9.635M out of the \$65.5M requested. Bloomer said that the university is discussing with stakeholders a strategy to renew the request for building out the OSU-Cascades campus.

In response to a question from Schueler about budget reductions, Bloomer confirmed that the increase in state support would not take back reductions, which had already been distributed, but would provide an opportunity to consider reinvestments. Callahan asked about the timing of such reinvestment decisions, and Bloomer said more information would be available in October following the finalization of allocations by the Higher Education Coordinating Commission.

6. Adjournment

With no further business proposed, Chair Schueler adjourned the meeting at 4:13 p.m.

Respectfully submitted,



Jennifer M. Almquist
Assistant Board Secretary